

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EA-07 CIAE-00 DODE-00 PM-04 H-01 INR-07  
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AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03  
CIEP-01 LAB-04 SIL-01 OMB-01 STR-04 CEA-01 FEA-01  
ACDA-07 IO-13 OES-06 SAL-01 AGRE-00 EPA-01 /126 W  
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R 221035Z DEC 76  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 4230  
INFO AMCONSUL BREMEN  
AMCONSUL DUSSELDORF  
AMCONSUL FRANKFURT  
AMCONSUL HAMBURG  
AMCONSUL MUNICH  
AMCONSUL STUTTGART  
AMEMBASSY BERLIN  
AMEMBASSY BRUSSELS  
AMEMBASSY COPENHAGEN  
AMEMBASSY DUBLIN  
AMEMBASSY LONDON  
AMEMBASSY LUXEMBOURG  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY THE HAGUE  
AMEMBASSY TOKYO  
USMISSION USBERLIN  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 01 OF 03 BONN 21445

E.O. 11652: N/A  
TAGS: EGEN, ETRD, EAID, GW  
SUBJECT: CHANCELLOR'S GOVERNMENT DECLARATION CONFIRMS  
BASIC FRG ECONOMIC POLICY LINES  
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REF: BONN 21122

1. SUMMARY. FRG POLICY DECLARATION CONTAINED FEW  
SURPRISES IN THE ECONOMIC FIELD. STAND-BY ECONOMIC  
PROGRAM AND 1978 TAX PACKAGE HAD BEEN LEAKED

EXTENSIVELY. THE CHANCELLOR RESTATED GERMAN SUPPORT FOR OR COMMITMENT TO: THE VITALITY OF THE EC; FREER WORLD TRADE; MULTILATERAL FINANCIAL ASSISTANCE TO DEVELOPED COUNTRIES WITH BALANCE OF PAYMENTS DIFFICULTIES; A SUCCESSFUL DIALOGUE IN NORTH/SOUTH RELATIONS; SPECIAL ASSISTANCE TO MSAS AND LLDCS, AND A CONTINUATION OF NUCLEAR ENERGY DEVELOPMENT. IN ADDITION, THE CHANCELLOR TOOK THE OPPORTUNITY TO SCOLD THE OPEC NATIONS FOR THEIR PAST PRICE INCREASES AND THE STATE TRADING COUNTRIES FOR THEIR RELUCTANCE TO PLAY A LARGER ROLE IN AID AND TRADE ISSUES. AMONG THE FEW NEW ITEMS WERE REFORM OF THE APPROVAL PROCESS FOR NUCLEAR POWER PLANTS AND GUARDED ACCEPTANCE OF AN ECONOMIC SUMMIT MEETING EARLY NEXT YEAR. IN CONVERSATION WITH E/C MINISTER, CHANCELLERY ECONOMIC ADVISER HAS DISCUSSED THE SUMMIT AND REPEATED THE CHANCELLOR'S SUPPORT FOR A WAIT-AND-SEE ATTITUDE ON FURTHER MEASURES TO STIMULATE THE DOMESTIC ECONOMY. END SUMMARY.

2. ON DECEMBER 16 CHANCELLOR SCHMIDT READ THE GOVERNMENT'S POLICY DECLARATION, OUTLINING FRG POLICY ACROSS THE BROAD SPECTRUM OF POLITICAL AND ECONOMIC ISSUES (REFTEL). WHILE NOT CONTAINING MUCH NEWS, THE STATEMENT NEVERTHELESS REPRESENTS A COMPREHENSIVE CATALOGING OF GERMAN ECONOMIC POLICY. PARAGRAPHS WHICH FOLLOW DISCUSS INDIVIDUAL POLICY SECTORS.

3. TRADE.

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THE CHANCELLOR RESTATED THE FRG'S COMMITMENT TO AN OPEN WORLD TRADING SYSTEM, USING STRONGER LANGUAGE THAN ONE MIGHT HAVE EXPECTED. HE PLEDGED THAT THE FRG WOULD ACT DECISIVELY AGAINST ALL KINDS OF NEW TRADE RESTRICTIONS AND WOULD WORK IN GATT FOR A REDUCTION IN EXISTING CUSTOMS AND OTHER TRADE BARRIERS AS QUICKLY AS POSSIBLE. THESE STATEMENTS WERE SOMEWHAT COUNTER-BALANCED, HOWEVER, BY HIS PROMISE TO GIVE GREAT WEIGHT TO LIMITING THE RISKS OF DAMAGE TO GERMAN FIRMS EXPOSED TO IMPORTS BENEFITTING FROM FREER TRADE AGREEMENTS.

4. NORTH/SOUTH RELATIONS.

ACCORDING TO THE CHANCELLOR THE FRG IS PREPARED TO BEAR ITS SHARE OF RESPONSIBILITY IN FINDING WAYS OF NARROWING THE GAP BETWEEN NORTH AND SOUTH. HE DESCRIBED THE RESOLUTION OF NORTH/SOUTH PROBLEMS AS ONE OF THE "PRINCIPAL INTERNATIONAL TASKS" FACING HIS

GOVERNMENT. SPECIFICALLY, HE ATTACHED GREAT IMPORTANCE TO SUCCESS IN THE NORTH/SOUTH DIALOGUE, CALLED FOR THE FURTHER OPENING OF MARKETS IN INDUSTRIALIZED COUNTRIES, ACCEPTED THE CLAIMS OF DEVELOPING COUNTRIES FOR SOVEREIGNTY OVER THEIR RAW MATERIALS, AND SPOKE OUT AGAINST CARTEIS AND MONOPOLIES WHICH ABUSE THEIR DOMINATING ECONOMIC AND MARKET POSITION. HE ALSO STATED THAT THE FRG IS WILLING TO INCREASE ITS OFFICIAL DEVELOPMENT ASSISTANCE TO THE LEAST DEVELOPED AND THE MOST SERIOUSLY AFFECTED COUNTRIES. COUNTRIES WITH DEBT PAYMENT PROBLEMS WERE ALSO SINGLED OUT FOR

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R 221035Z DEC 76  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 4231  
INFO AMCONSUL BREMEN  
AMCONSUL DUSSELDORF  
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AMEMBASSY TOKYO  
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SPECIAL ASSISTANCE BY THE FRG.

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ON THE OTHER HAND, THE POLICY DECLARATION RESTATED FRG OPPOSITION TO SOME LDC DEMANDS IN THE NORTH/SOUTH DIALOGUE. SPECIFICALLY, SCHMIDT SPOKE OUT AGAINST A REGIME OF WORLDWIDE COMMODITY AGREEMENTS, SUPPORTING INSTEAD THE FRG POSITION OF EXPORT EARNINGS STABILIZATION SCHEMES. HE ALSO RESTATED FRG OPPOSITION TO EXPROPRIATION WITHOUT COMPENSATION. HE CHASTIZED THE STATE TRADING COUNTRIES FOR THEIR INSIGNIFICANT CONTRIBUTION TO ECONOMIC ASSISTANCE PROGRAMS AND FOR THEIR FAILURE TO PLAY A MORE ACTIVE ROLE IN THE NORTH/SOUTH DIALOGUE. AT THE SAME TIME THE CHANCELLOR FELT IT NECESSARY TO RESTATE FOR THE GERMAN PUBLIC THE BENEFICIAL ASPECTS OF GERMAN FOREIGN ASSISTANCE, THIS IN LIGHT OF THE SUBSTANTIAL OPPOSITION/DISINTEREST AMONG GERMAN CITIZENS TO/IN THEIR AID PROGRAM.

##### 5. ENERGY.

THIS SECTION OF THE STATEMENT WAS DEVOTED ALMOST EXCLUSIVELY TO DOMESTIC ENERGY CONCERNS, EXCEPT FOR TWO REFERENCES TO OPEC. AT ONE POINT THE CHANCELLOR CALLED UPON THE OIL-PRODUCING STATES TO FURTHER THEIR EFFORTS TO AID THE LDCS, AND IN CLOSING THE INTERNATIONAL SECTION OF HIS REPORT HE REFERRED TO THE QUADRUPLING OF OIL PRICES AND THE NEED FOR OPEC COUNTRIES TO ASSIST IN INSURING THE SUCCESS OF THE PARIS CONFERENCE. ON THE DOMESTIC FRONT, THE CHANCELLOR EMPHASIZED THE IMPORTANCE WHICH COAL WOULD CONTINUE TO HAVE IN THE POWER GENERATION FIELD. THE FEDERAL GOVERNMENT IS CURRENTLY ATTEMPTING TO MEDIATE DISCUSSIONS BETWEEN THE COAL AND ELECTRICITY-GENERATION SECTORS, IN AN EFFORT TO REACH CONTRACTUAL AGREEMENT FOR ANNUAL PURCHASES OF HARD COAL. TO REDUCE FRG "ONE-SIDED DEPENDENCY" ON IMPORTED OIL, THE CHANCELLOR CALLED FOR THE CONTINUED EXPANSION OF NUCLEAR POWER PRODUCTION, NOTING THAT IT REMAINS INDISPENSABLE FOR COVERING THE

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ENVISAGED ELECTRICITY CONSUMPTION. AFTER RESTATING THE PRIORITY OF REACTOR SAFETY AND THE NECESSITY OF DEVELOPING ADEQUATE WASTE DISPOSAL FACILITIES BEFORE NEW PLANTS ARE BUILT, HE NOTED THAT THE FRG IS REVIEWING THE POSSIBILITY OF INTRODUCING A FORM OF CLASS ACTION SUIT (HERETOFORE UNKNOWN IN THE FRG) IN THE APPROVAL PROCESS FOR NUCLEAR POWER PLANT CONSTRUCTION. THE CHANCELLOR ALSO INDICATED THAT THE NUCLEAR SECTOR WOULD BE EXPECTED TO BEAR THE FULL COSTS FOR THE CLOSED FUEL CYCLE, UP TO AND INCLUDING THE WASTE DISPOSAL. THIS STATEMENT APPEARS INTENDED TO DISPEL ANY SPECULATION THAT THE GOVERNMENT WOULD PROVIDE ASSISTANCE TO THE ELECTRIC UTILITIES FOR THE CONSTRUCTION OF AN INTEGRATED FUEL CYCLE CENTER.

#### 6. ECONOMIC SUMMIT

IN SOMEWHAT GUARDED LANGUAGE SCHMIDT EXPRESSED SUPPORT FOR AN ECONOMIC SUMMIT TO BE HELD EARLY IN 1977. THE INFORMAL TRANSLATION OF HIS STATEMENT READS AS FOLLOWS:

"WE THEREFORE AGREE WITH THE NEWLY ELECTED AMERICAN PRESIDENT AND OTHER GOVERNMENT CHIEFS OF MAJOR INDUSTRIAL COUNTRIES THAT WE WILL RESUME IN THE NEAR FUTURE OUR DELIBERATIONS ON ECONOMIC POLICIES."

CHANCELLERY ECONOMIC ADVISOR HISS, IN CONVERSATION WITH ECONOMIC/COMMERCIAL MINISTER, ACKNOWLEDGED THAT THE FRG MIGHT COME UNDER PRESSURE AT SUCH A SUMMIT TO DO MORE TO ASSIST IN THE REVITALIZATION OF THE EUROPEAN AND GLOBAL ECONOMY, BUT THIS PROSPECT DID NOT SEEM TO WORRY HIM.

#### 7. EUROPEAN COMMUNITY

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THE CHANCELLOR EMPHATICALLY REAFFIRMED HIS GOVERNMENT'S SUPPORT OF THE EC AND THE AIM OF EUROPEAN UNION. HE SAID THAT IT WILL BE ESSENTIAL TO EXHAUST ALL ECONOMIC AND POLITICAL POSSIBILITIES TO PRESERVE THE COMMUNITY AND DEVELOP IT FURTHER. HE CAILED UPON THE GERMAN PUBLIC TO FACE UP TO THE FACT THAT THE FURTHER DEVELOPMENT OF THE COMMUNITY WILL REQUIRE ADDITIONAL FUNDS WHICH WILL THUS BE UNAVAILABLE FOR NATIONAL PROGRAMS. AT THE SAME TIME HOWEVER, HE

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R 221035Z DEC 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 4232

INFO AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

AMCONSUL HAMBURG

AMCONSUL MUNICH

AMCONSUL STUTTGART

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STRESSED THAT OTHER MEMBER STATES MUST MAINTAIN THEIR  
OWN EFFORTS IN THE ECONOMIC SPHERE. HE ALSO SPOKE  
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OF THE NEED TO CONTINUE EFFORTS TOWARD THE COORDINATION OF EC TRADE AND MONETARY POLICY. WITH RESPECT TO THE EXPANSION OF THE COMMUNITY TO INCLUDE OTHER MEDITERRANEAN STATES, HIS LANGUAGE WAS COMPLETELY NON-COMMITTAL.

8. FINANCIAL AID TO DCS

THE POLICY DECLARATION GAVE PROMINENT PLAY TO FRG ASSISTANCE TO ITALY AND GREAT BRITAIN, ALTHOUGH NEITHER RECIPIENT WAS MENTIONED BY NAME. THE CHANCELLOR STATED THAT THE FEDERAL REPUBLIC WILL LIVE UP TO ITS RESPONSIBILITY IN THE FUTURE TO ASSIST COUNTRIES IN BALANCE OF PAYMENTS DIFFICULTY. HE APPEARED TO GIVE SUPPORT TO MULTILATERAL AS OPPOSED TO BILATERAL ASSISTANCE PROGRAMS AND EMPHASIZED THE PRE-CONDITION THAT THE RECIPIENT MAKE ENERGETIC EFFORTS TO IMPROVE THE EFFICIENCY OF ITS OWN ECONOMY AND TO HELP ITSELF.

9. BERLIN; EAST GERMANY

IN CURSORY FORM THE CHANCELLOR WELCOMED THE EXPANSION OF INNER-GERMAN TRADE, NOTING THAT IN 1976 TRADE HAS BEEN ROUGHLY IN BALANCE. WITH RESPECT TO BERLIN, THE CHANCELLOR REAFFIRMED THE COMMITMENT OF HIS GOVERNMENT TO PROVIDE BUDGETARY ASSISTANCE, CALLED FOR NEW INCENTIVES IN THE RESEARCH SECTOR, AND NOTED THE IMPORTANCE OF SAFEGUARDING THE CITY'S POWER SUPPLY OVER THE LONG-TERM.

10. DOMESTIC ECONOMY

THE CHANCELLOR REMARKED FAVORABLY ON THE FRG'S ECONOMIC PROGRESS IN THE PAST YEAR AND EXPRESSED HIS CONFIDENCE THAT ECONOMIC GROWTH WOULD CONTINUE. HE ANNOUNCED PLANS FOR A STANDBY PROGRAM OF DM 2-3  
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BILLION IN PUBLIC INVESTMENTS. HE EMPHASIZED THE ROLE OF RESEARCH AND TECHNOLOGY AS A TOOL FOR MODERNIZATION OF THE ECONOMY AND ACCORDED PRIORITY TO JOB-PRODUCING RESEARCH PROGRAMS. IN THE SECTION DEALING WITH THE FRG'S BUDGET, SCHMIDT CALLED FOR A COMMON EFFORT TO REDUCE BUDGETARY DEFICITS. HE STATED PLANS TO ASK FOR AN INCREASE IN THE VALUE ADDED TAX, EFFECTIVE JANUARY 1, 1978, AND PRESENTED GOVERNMENT PLANS TO PARTLY OFFSET THE REVENUE EFFECT OF THIS BY DECREASING

PROPERTY TAXES AND BY VARIOUS OTHER ADJUSTMENTS WHICH WILL EITHER DECREASE THE WAGE AND INCOME TAX RATE AND/OR INCREASE DEDUCTABLE ITEMS FOR INCOME TAX PURPOSES. SCHMIDT VETOED PLANS FOR ANY CHANGES IN DEPRECIATION ALLOWANCES.

11. CHANCELLORY ECONOMIC ADVISER HISS TOLD ECONOMIC/ COMMERCIAL MINISTER THAT THE FRG WOULD STILL GIVE HIGHEST PRIORITY TO REDUCING UNEMPLOYMENT. HE ACKNOWLEDGED THAT THE POLICY DECLARATION CONTAINED NOTHING NEW IN THIS DIRECTION, REAFFIRMING THE GOVERNMENT'S WAIT-AND-SEE POLICY ON FURTHER STIMULATION. HE NOTED THAT THE STAND-BY MEASURES REPORTED ABOVE WOULD BE AVAILABLE SHOULD THE ECONOMIC SITUATION DETERIORATE, BUT ADMITTED THAT SOME OF THEM WOULD PROBABLY NOT TAKE EFFECT UNTIL AT LEAST 1978.  
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## Message Attributes

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